1️⃣ Definition & Purpose

- **Depreciation**: Systematic and rational allocation of the cost of tangible fixed assets (PP&E) over their **economic useful life**.
- **Not** a valuation method or cash flow tool; it's based on the **matching principle** (FASB SFAC No. 8).
- **Purpose**: Match asset cost to the revenue it helps generate.
- **Non-depreciable**: Land (infinite life); buildings and improvements are depreciable.
- **Exam Tip**: Watch for distractors like "revaluation" or "replacement fund"—those are incorrect under US GAAP.

2️⃣ Determining Useful Life

Primary Factors	Excluded Factors
Passage of time	Tax regulations
Asset usage	SEC guidelines
Obsolescence	—
Physical wear/tear	—

- **CMA Insight**: Useful life is a management estimate; changes are **prospective**.
- **Special Case**: For assets like thrill rides, use **estimated popularity period**, not physical life.

3️⃣ Initial Cost & Depreciable Base

- **Depreciable Base** = Cost − Salvage Value
- **Capitalized Cost Includes**:
  - Purchase price
  - Freight/shipping
  - Installation/testing
  - Site prep, import duties, insurance in transit
- **Excludes**: Routine maintenance, interest (unless capitalized)
- **IFRS Note**: Requires **component depreciation** if parts have different lives.

4️⃣ Depreciation Methods

a. Straight-Line (SL)

- **Formula**: (Cost−Salvage)÷Useful Life
- **Partial Year**: Use half-year or nearest month convention
- **Best For**: Uniform usage assets (e.g., buildings)
- **Pros**: Simple, predictable

b. Double-Declining Balance (DDB)

- **Formula**: Book Value×2×SL Rate
- **Ignores Salvage Initially**
- **Stops** when book value = salvage
- **Best For**: Assets with rapid early obsolescence
- **Impact on Sale**: Lower book value → higher gain/lower loss

c. Sum-of-the-Years'-Digits (SYD)

- **Formula**: (Cost−Salvage)×Remaining Life/Sum of Years
- **Sum**: n(n+1)/2n(n+1)/2
- **Partial Year**: Adjust numerator (e.g., 6.5/36)
- **Best For**: Assets with gradually declining productivity

d. Units-of-Production (UOP)

- **Formula**: (Cost−Salvage)×Actual Units/Total Units
- **Best For**: Output-based assets (e.g., machinery)
- **Pitfall**: Requires accurate total output estimate

🔁 Method Comparison Table

Method	Formula	Expense Pattern	Ignores Salvage Initially?	Best For
SL	(C−S)/L	Even	No	Uniform use
DDB	BV×2/L	Declining	Yes	Early obsolescence
SYD	(C−S)×Fraction	Declining	No	Gradual decline
UOP	(C−S)×Usage Ratio	Variable	No	Output-based

Year 1 Expense Ranking: DDB > SYD > UOP (if high output) > SL

5️⃣ Partial-Year Conventions

Convention	Application
Full Year	Rare; assumes full ownership
Half-Year	50% in year of acquisition/disposal
Nearest Month	Months owned ÷ 12

Exam Tip: Always check the question for convention used.

6️⃣ Component Depreciation (IFRS Focus)

- **Required under IFRS** if parts have different lives
- **Example**:
  - Main Machine: £680k, 10 yrs → £66k/year
  - Laser: £220k, 5 yrs → £42k/year
  - Replacement Laser: £250k, 5 yrs → £50k/year
  - **Future Depreciation** = £66k + £50k = £116k/year

US GAAP: Allowed but not required

7️⃣ Impairment of Fixed Assets

Standard	Test	Loss Calculation
US GAAP	2-step: CV > undiscounted CFs → impaired	Loss = CV − FV
IFRS	1-step: CV > recoverable amount	Loss = CV − higher of (FV − cost to sell, value in use)

- **Reversals**: Allowed under IFRS, not under US GAAP (except held-for-sale)
- **Exam Tip**: Watch for distractors mixing steps or definitions

8️⃣ Sale or Disposal of Assets

- **Gain/Loss** = Proceeds − Carrying Value
- **Accelerated Depreciation** → Lower CV → Higher gain/lower loss
- **Always update accumulated depreciation to sale date**

9️⃣ Revaluation Model (IFRS Only)

Change Type	Where Recognized
Revaluation Increase	OCI (unless reversing prior decrease)
Revaluation Decrease	P&L (unless reversing prior increase)

- **US GAAP**: Revaluation not permitted
- **OCI Items**: Translation losses, revaluation gains, pension gains, cash flow hedge gains

🔟 CMA Exam Strategy & Pitfalls

✅ Tips

- Memorize formulas and conventions
- Practice multi-asset scenarios (e.g., Ames Steel)
- Target 80%+ accuracy on MCQs
- Use comparison tables for method selection questions

⚠️ Common Pitfalls

- Forgetting salvage value (except DDB initially)
- Miscalculating SYD sum or fractions
- Ignoring partial-year adjustments
- Confusing impairment standards (US vs IFRS)

🗓️ 2025 Update

- No major changes to ASC 360 (US GAAP) or IAS 16 (IFRS)
- Focus remains on core concepts, method selection, and impairment logic

Would you like this turned into a printable study sheet or a quiz set for practice? I can also build mock disclosures or journal entries based on these notes. You're building a world-class CMA toolkit—let's keep going!

Absolutely, Karthik! Here's your **final, consolidated CMA US Exam Notes on Depreciation of Fixed Assets**, combining your detailed content with my enhancements for clarity, structure, and exam strategy. This version is optimized for quick review, deep understanding, and high performance on both MCQs and essays.

📘 Depreciation of Fixed Assets – CMA US Exam Master Notes

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